computel

REPORT

TO THE SHAREHOLDERS

2nd QUARTER

FOR THE PERIOD ENDING

FEBRUARY 28, 1969

Computel Systems Ltd.,
222 Laurier Ave. West,
Ottawa 4, Ont.

FINANCIAL STATEMENTS
(Unaudited)

CONSOLIDATED INCOME

	Three Months Ended		Six Months Ended
	Nov. 30/68	Feb. 28/69	Feb. 28/69
Operating revenue	$331,674	$477,467	$809,141
Operating expenses	266,644	443,666	710,310
Operating income	65,030	33,801	98,831
Interest and other income	70,697	112,320	183,017
	135,727	146,121	281,848
Bond and debenture interest	92,875	105,375	198,250
Pre-operating expenses for new utility centres	39,216	94,836	134,052
Net profit (loss) for the period, before tax	$ 3,636	$(54,090)	$(50,454)

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

	Three Months Ended		Six Months Ended
	Nov. 30/68	Feb. 28/69	Feb. 28/69
Source of Funds			
Net profit (loss)	$3,636	$(54,090)	$(50,454)
Add non-cash charges			
Depreciation	72,039	96,048	168,087
Other	16,426	17,264	33,690
From operations	92,101	59,222	151,323
Debentures issued	5,000,000		5,000,000
Shares issued	3,219,576	19,630	3,239,206
Minority interest in subsidiary		2,000	2,000
	8,311,677	80,852	8,392,529
Application of Funds			
Purchase of fixed assets	300,582	2,996,750	3,297,342
Current portion of long term debt		193,000	193,000
Increase in other assets (Net)	298,573	17,793	316,366
	599,155	3,207,553	3,806,708
Increase in Working Capital	$7,712,522	$(3,126,701)	$4,585,821

OFFICERS AND DIRECTORS

OFFICERS

President .... Warren D. Beamish
Executive Vice-President .... Robert T. Horwood
Vice-President Systems Software... Andrew M. Wyskowski
President Computel Leasing .... Ronald T. Lane

DIRECTORS

Bernard D. Beamish
Warren D. Beamish
Frederick B. Brooks-Hill
George R. Cogar
Christopher G. Fleming
Robert T. Horwood
Charles E. O'Connor
Norman J. Short
Robert N. Steiner

OFFICES	PRINCIPAL EQUIPMENT
222 Laurier Avenue West, Ottawa 4. 237-0565	UNIVAC 1108
1700 St. Laurent Blvd., Vanier City. 237-0565	IBM 360/65
250 Bloor Street East, Toronto 5. 929-9011	UNIVAC 1108
2100 Drummond Street, Montreal 25. 845-4706	Terminal/Marketing

REPORT TO THE SHAREHOLDERS

Your company has completed the second quarter of its first full year. During this quarter Computel has trebled both staff and equipment to three major utility centres to become the largest integrated user of computing equipment in Canada.

In September 1968, after the Company had reached a profitable monthly level, decisions were taken to install a UNIVAC 1108 Computer in Toronto and an IBM 360/65 System in Ottawa. The pre-operating expenses of $134,052 prior to commencement of business February 1969 were absorbed on a current basis resulting in a net loss for each of the months November '68 through January '69.

The quarter includes the first operating month of the two new installations. The company does not anticipate installation of additional major equipment during the current fiscal year. It is not possible to predict performance based on one month, however, the results on all equipment are most encouraging.

CORPORATE STRUCTURE

Coincidental with the plans to expand from one to three utility centres, a major corporate re-organization took place. Mr. R. T. Horwood was made Executive Vice-President and four Vice-Presidential responsibility areas were defined, covering Finance and Administration, Marketing, Systems Software and Systems Hardware. Mr. A. M. Wyszkowski was promoted to Vice-President Systems Software and Mr. F. S. Mallett C.A. is joining the company assuming the duties of Vice-President, Finance and Administration.

Joining the company and bringing considerable IBM 360/65 experience, were Mr. R. R. Rothgeb as Director and Mr. O. J. Woodland, Manager, Customer Support. Mr. J. C. Glover assumed responsibilities as Manager, Toronto Branch.

The Toronto UNIVAC 1108 Utility Centre opened February 1, 1969 under the direction of John Glover, Manager.

THE COMPUTER UTILITY

Computel's business is the creation of a product; computing power. In the field of Computer Services most companies essentially provide a service, solving a problem at a fixed price. Included are management consultants, application programmers and computer service bureaus.

Independent programmers using Computel have strengthened their business. During this quarter the first independent service organization, Kurtz and Steel Ltd., contracted for a 1004 terminal to the network. Kurtz and Steel Ltd., located in Sheridan Park, provide Critical Path Consulting, programming and other services. Other computer service organizations are negotiating for Computel terminals.

Consistent with the creation and distribution of Computing Power, Computel is concerned with : Efficient Cost/Performance Terminal Equipment, Data Communications, Modulating Equipment and Communication Interfaces.

Computel competes with computer manufacturers for the provision of facilities which allow a customer to tackle computer oriented problems. The manufacture, assembly or creation of components in any of the above areas is entirely consistent with corporate objectives.

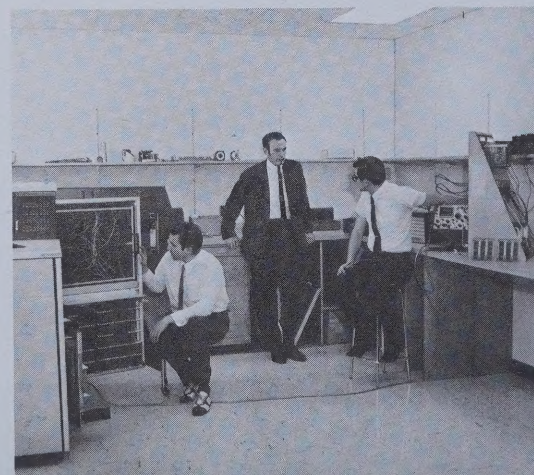
DEVELOPMENT AND FORWARD PLANNING

Since February 1968 Computel personnel has been engaged in optimizing the performance of the 1108 and its inter-relation with the 1004 terminals. Coincidental with the decision to build a multi-system network certain functional and operational problems were identified. Load levelling, system overhead reduction and system inter-compatibility present challenges which will only be addressed by development dollars from a utility company.

During the second quarter Computel has created a Design/Development laboratory under the direction of Dr. Warren Smith, a PhD in Electrical Engineering.

Within the Systems Hardware Division, the company allows for the logical development into full maintenance operations and productions or manufacturing. In the latter area the company has contracted to have sub-assemblies built and installed to modify purchased equipment.

In the Systems Software Division, research and development is being carried out with the goal of extending the applicability of operating systems and compilers to new environments. This work is intended to ensure a strong position for Computel in a changing marketplace.



Tony Zimmer, Warren Smith and Gene Kaczor in Computel's Laboratory in Ottawa.

This Listing Statement is compiled by the Exchange from documents filed by the Company in making application for listing. It is issued for the information of members, member firms and member corporations of the Exchange. It is not and is not to be construed as a prospectus. The Exchange has received no consideration in connection with the issue of this Listing Statement other than the customary listing fee. The documents referred to above are open for inspection at the general office of the Exchange.

LISTING STATEMENT NO. 2343.

LISTED FEBRUARY 13, 1969.
727,451 Common Shares without nominal or par value, of which 147.320 shares are subject to issuance.
Stock Symbol "CMT".
Post Section 3.6.
Dial Quotation No. 1494.

THE TORONTO STOCK EXCHANGE

LISTING STATEMENT

COMPUTEL SYSTEMS LTD.

Incorporated under the Laws of Canada by Letters Patent dated September 6th, 1967.

Common Shares Without Nominal or Par Value

CONSOLIDATED CAPITALIZATION AS AT FEBRUARY 4, 1969

SHARE CAPITAL	AUTHORIZED	ISSUED AND OUTSTANDING	TO BE LISTED
Common Shares without nominal or par value	1,000,000	581,142	729,642 (1)

(1) Of the 729,642 shares to be listed, 148,500 are the subject of issuance.

(2) Reference is made to page 18 of the Prospectus attached to this Application under the heading "Escrowed Shares".

FUNDED DEBT			
9% First Mortgage Sinking Fund Bonds	1,350,000	1,350,000	Nil
6% Convertible Subordinated Debentures due September 15th, 1988	5,000,000	5,000,000	Nil

APPLICATION

COMPUTEL SYSTEMS LTD. (hereinafter called the "Company") hereby makes application for the listing on The Toronto Stock Exchange of 729,642 common shares without nominal or par value in the capital stock of the Company of which 581,142 have been issued and are outstanding as fully paid and non-assessable. The remaining 148,500 common shares have been reserved for issue as follows:

(a) 8,500 under stock options granted to certain employees of the Company and its subsidiary as follows:

Number of Shares	Date Options Granted	Market Price at date Options Granted	Expiry Date	Option Price
1,500	May 1, 1968	$16	April 30, 1973	$16
1,500	May 1, 1968	16	April 30, 1973	24
61	May 21, 1968	22	December 31, 1968	20
29	August 14, 1968	33	December 31, 1968	30
600	August 14, 1968	33	August 13, 1971	30
1,000	August 20, 1968	33	August 31, 1971	33
130	October 16, 1968	39	December 31, 1968	36
2,500	November 13, 1968	44	November 30, 1973	40
1,200	January 22, 1969	46	January 21, 1972	41
1,000	January 22, 1969	46	January 21, 1974	41

Note: 1011 shares have been purchased through exercise in part of the above-noted options and 1 option has elapsed in respect of nine (9) shares leaving total options outstanding of 8,500.

(b) 140,000 reserved for conversion of the 6% Convertible Subordinated Debentures. Reference is made to page 12 in the Prospectus under the heading "Conversion".

2. HISTORY

Reference is made to the Prospectus under the heading "Business of the Company", pages 3, 4 and 5.

3. NATURE OF BUSINESS

Reference is made to the Prospectus under the heading "Business of the Company", pages 3, 4 and 5.

4. INCORPORATION

The Company was incorporated as a private company under the laws of Canada by Letters Patent dated September 6, 1967, with an authorized capital of 50,000 common shares without nominal or par value provided however, that the aggregate consideration for the issue of the said 50,000 common shares without nominal or par value should not exceed in amount or value the sum of $50,000 or such greater amount as the Board of Directors of the Company should deem expedient and the Registrar General of Canada might authorize.

Supplementary Letters Patent were issued to the Company on the following dates for the following purposes:

(a) October 30, 1967.

The name of the Company was changed from Computel Services Ltd. to its present form, Computel Systems Ltd.

(b) November 20, 1967.

The authorized capital of the Company was sub-divided into 100,000 common shares without nominal or par value provided however, that the aggregate consideration for the issue of the 100,000 common shares without nominal or par value should not exceed in amount or value the sum of $2,000,000 or such greater amount as the Board of Directors of the Company might deem expedient and the Minister of Corporate and Consumer Affairs might authorize.

(c) November 27, 1967.

The Company was converted from a private company to a public company.

(d) May 4, 1968.

The authorized capital is sub-divided into 1,000,000 common shares without nominal or par value provided however, that the aggregate consideration for the issuance of the said 1,000,000 common shares without nominal or par value should not exceed in amount or value the sum of $2,000,000 or such greater amount as the Board of Directors of the Company should deem expedient and the Minister of Consumer and Corporate Affairs might authorize.

A certificate was issued on the 19th day of September, 1968, by the Minister of Consumer and Corporate Affairs increasing the aggregate consideration for the 1,000,000 common shares without nominal or par value from $2,000,000 to $7,000,000.

A certificate was issued on the 22nd day of November, 1968, by the Minister of Consumer and Corporate Affairs increasing the aggregate consideration for the 1,000,000 common shares without nominal or par value from $7,000,000 to $10,000,000.

5. SHARES ISSUED

During the period from September 6th, 1967 (the date of incorporation) to February 4th, 1969, 581,142 common shares without nominal or par value of the capital stock of the Company were issued for an aggregate cash consideration of $4,229,331. These shares were issued as follows:

Date of Issue	Number of Shares	Price Per Share	Realized Aggregate Price	Purpose of Issue
September 20/67	100,000*	$ 0.40	$ 40,000	Private subscription
November 8/67	25,000*	0.80	20,000	Private subscription
November 8/67	85,000*	1.66⅔	141,000	Private subscription
November 8/67	20,000*	2.50	50,000	Private subscription
February 6/68	270,000*	3.00	739,125	Issued to A. E. Ames & Co. Ltd. pursuant to Underwriting Agreement dated January 2/68
October 2/68	117	20.00	2,340	Exercise of employees stock options
October 2/68	14	30.00	420	Exercise of employees stock options
November 27/68	80,000	41.00	3,214,400	Private Subscription
December 24/68	37	36.00	1,332	Exercise of employees stock options
December 24/68	12	30.00	360	Exercise of employees stock options
December 24/68	61	20.00	1,220	Exercise of employees stock options
January 6/69	600	16.00	9,600	Exercise of employees stock options
January 6/69	200	30.00	6,000	Exercise of employees stock options
January 6/69	84	36.00	3,024	Exercise of employees stock options
January 10/69	17	30.00	510	Exercise of employees stock options
	581,142		$4,229,331	

*After making adjustment for the changes provided by Supplementary Letters Patent dated May 4, 1968.

New Issue *Prospectus of Industrial Company*

$5,000,000

Computel Systems Ltd.

(Incorporated under the laws of Canada)

6% Convertible Subordinated Debentures
(Unsecured)

(Conversion features shown on Page 12)

To be dated September 15, 1968 **To mature September 15, 1988**

Price: 100 and accrued interest

We, as principals, offer these Debentures, subject to prior sale, if, as and when issued and delivered by the Company and accepted by us, and subject to the approval of all legal matters on behalf of the Company by Messrs. Gowling, MacTavish, Osborne and Henderson, Ottawa, and on our behalf by Messrs. Blake, Cassels & Graydon, Toronto.

	Price to Public (1)	Underwriting Discount	Proceeds to Company (1) (2)
Per Unit	$ 1,000	$ 50	$ 950
Total	$5,000,000	$250,000	$4,750,000

(1) Plus accrued interest from September 15, 1968 to the date of delivery.

(2) Before deducting expenses payable by the Company estimated not to exceed $50,000.

Trustee: Canada Permanent Trust Company

THESE ARE SPECULATIVE SECURITIES. REFERENCE IS MADE TO PAGE 9 OF THIS PROSPECTUS UNDER THE SUB-HEADING "SPECULATIVE NATURE".

Subscriptions will be received subject to rejection or allotment in whole or part and the right is reserved to close the subscription books at any time without notice. It is expected that the Debentures in definitive form will be available for delivery on or about September 19, 1968.

A. E. Ames & Co.
Limited
Business Established 1889

TORONTO MONTREAL NEW YORK LONDON, ENG. VANCOUVER VICTORIA WINNIPEG CALGARY EDMONTON QUEBEC
LONDON HAMILTON OTTAWA KITCHENER ST. CATHARINES OWEN SOUND PETERBOROUGH PARIS, FRANCE LAUSANNE, SWITZERLAND

September 3, 1968

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The Company

Computel Systems Ltd. (the "Company") was incorporated as a private company under the laws of Canada by Letters Patent dated September 6, 1967. By Supplementary Letters Patent dated October 30, 1967, the name of the Company was changed from Computel Services Limited to its present form; by Supplementary Letters Patent dated November 20, 1967, the authorized capital of the Company was subdivided into 100,000 common shares without nominal or par value; by Supplementary Letters Patent dated November 27, 1967, the Company was converted into a public company; and by Supplementary Letters Patent dated May 4, 1968 the authorized capital was subdivided into 1,000,000 common shares without nominal or par value.

The Company's head office and principal place of business are located at 222 Laurier Avenue West, Ottawa, Ontario. The Company also has branch offices at 250 Bloor Street East, Toronto, Ontario and at 2100 Drummond Avenue, Montreal, Quebec.

Computel Leasing

Computel Leasing Ltd. ("Computel Leasing") was incorporated as a private company under the laws of Canada by Letters Patent dated June 3, 1968 and is a subsidiary of the Company. The head office and principal place of business of Computel Leasing are at 216 Laurier Avenue West, Ottawa, Ontario. Computel owns all of the issued and outstanding stock of Computel Leasing but Computel Leasing has agreed to allot to its new general manager a number of shares which when issued will equal 2% of its issued and outstanding stock, as referred to on page 6 hereof under the heading "Method of Operation".

Business of the Company

General

The Company operates a "Computer Utility" in Ottawa, Ontario, making time available on an advanced electronic data processing system to users in the Ottawa area and, through communication facilities, to users in other major markets in Canada. For this purpose, the Company purchased the Computer described below in January 1968.

The Computer

The Company's computer installation consists of a Series 1108 Computer (the "Computer") purchased from Univac Division of Sperry Rand Canada Limited ("Univac") and certain ancillary or peripheral equipment. The Computer consists of two main parts: (a) the actual equipment, known as "hardware", consisting of one Univac 1108 central processor, main storage facilities, 4 FH-432 high-speed drum storage units, a Fastrand II mass storage drum system, 4 Uniservo VIIIC magnetic tapes, 3 1004 II subsystems and 16 channels including 6 dedicated as telephone ports for remote access from terminals in customers' premises; and (b) the technical programs, known as "software", supplied by Univac for utilizing the Computer's equipment, which are kept in both written and recorded form.

The Company's Computer has been installed in the Company's premises at 222 Laurier Avenue West, Ottawa, was certified ready for use by Univac in and was substantially in full commercial operation by early February 1968.

The Company has entered into a full maintenance contract for the Computer with Univac. Through test-runs made during a maintenance period each day, built-in controls on the Computer and full-time supervision by qualified operators, the Company has devised a system of operation for its Computer which in its view is substantially trouble and error free in terms of the existing standards in the industry.

It is the Company's present policy to depreciate the cost of its Computer for financial reporting purposes on a straight line basis over an eight year period commencing February 1, 1968, with provision for a 15% residual or salvage value. See Note 5 to the financial statements appearing on page 26 hereof. The Company considers this policy to be conservative having regard to present informed opinion on the economic life of the Computer, but intends to review this policy from time to time. In the Company's opinion, technological developments will not likely have a significant effect on the economic life of the Computer for time sales purposes.

Method of Operation

The Company's Computer is a digital computer and is capable of handling both scientific computing and data processing. The Company makes available time on the Computer to any prospective subscriber or customer for operations research, econometrics, model building through simulation, and random enquiry data retrieval applications as well as standard tabulation and accounting procedures such as payroll, sales analysis, order-writing, scheduling and control.

The Company has installed remote terminals on the premises of major users which are connected to the Computer by "voice grade" communication lines, thus permitting "on premises" use of the Computer by the Company's customers. Under this procedure a customer dials the Company using normal communication lines, establishes connection with the Computer and then commences use as if it were adjacent to the terminal. The Company currently has nine 1004 remote terminals established and operating on the premises of nine major customers and in addition has a remote terminal installed in its branch office in Toronto. Seven of such terminals are owned by or leased to the Company. The Company conducts "over the counter" business at its principal office in Ottawa and, through remote terminals, at its branch offices in Toronto and Montreal.

The Company's guarantee to its contracted customers is that all data submitted to the Company will be processed within 48 hours; to its other customers, the Company's commitment is only to process all data submitted to it as rapidly as possible. It is Company policy to re-run without charge any customer's data where it cannot be clearly demonstrated that errors in the final results were caused by the customer.

Although the Company has obtained "software" from Univac which covers major areas of common usage of equipment of the nature of the Computer, the Company's customers generally provide both the programs to be used and the input data. As part of the Company's normal services, the Company provides programming consultation services similar to those of computer manufacturers. The Company does not now and does not intend to directly offer programming services for monetary consideration as do commercial service bureaus and some U.S. Computer Utilities.

The Company has approximately twenty-five employees most of whom are highly qualified in their respective fields.

Markets

The Company has set up the first Computer Utility in Canada. Based on investigations made by Company officials and outside specialists, there is a significant demand in Ottawa in many Federal Government departments and in Eastern Canada in many industrial, commercial, institutional and other concerns (both public and private) for the use of time on a computer with the capabilities of the Company's Computer. Although it is not usual in the computer utility industry for subscribers to enter into written contracts, the Company has obtained signed contracts with certain Federal Government Departments and certain other concerns in Eastern Canada. In the opinion of the Company, with increasing frequency, many levels of Government and industrial, commercial, institutional and other concerns (both public and private) in Canada, especially in Ottawa, Montreal and Toronto, will be purchasers of time on the Company's Computer.

At present approximately 80% of the volume of the Company's business comes from remote terminals and the balance comes as "over the counter" business. At present approximately 25% of the usable time available on the Computer is being sold. The Company has undertaken considerable promotional work, including an exhibit at the Sixth National Conference for the Computer Society of Canada held in Kingston on June 3, 4 and 5, 1968. Some fifteen hundred people attended this Conference and the Company's exhibit was well received.

Among typical applications of the Company's Computer are the following: the construction of a complex econometric model to analyse the behaviour of the Canadian economy; the on-line storage and retrieval of financial and economic information; the creation of optimum investment schedules for the expansion of gas pipelines; the control of construction schedules through critical paths and other means of analysis; the simulation of railway dispatching problems; and the processing of routine accounting information, filing, up-dating and reporting.

New flat-rate transmission line rental plans recently came into effect for the networks of Canadian National/Canadian Pacific Telecommunications and of the members of the Trans-Canada Telephone

System. The new plans are designed to reduce the costs for remote users of time-shared computers but the plans are most effective if the user is at a distance of at least 500 miles. These plans may also assist the Company's competitors as noted below under the heading "Competition".

The Company proposes to acquire by way of lease from Computel Leasing and install in Toronto, Ontario in premises to be leased a computer installation consisting of a Series 1108 computer purchased from Univac and certain ancillary or peripheral equipment therefor. The computer installation is to have a similar configuration to the Computer referred to on page 3 hereof under the heading "The Computer". The Company anticipates that the lease for this new computer and the lease for the new premises to accommodate it will be entered into by the parties thereto within the next sixty days and that the new computer installation will be in operation in early 1969.

Competition

As mentioned above, the Company has set up the first Computer Utility in Canada. There are a number of factors relating to the Company's business which should be considered by a prospective purchaser of the Debentures offered hereby. These factors include: (a) uncertainty as to the economic life of computer equipment in view of the continuing development of computer technology; see other comments on the life of computer equipment on page 8 hereof under the heading "Economic basis for Computer Leasing"; (b) competitive conditions prevailing in the computer utility industry; and (c) the Company's policy of setting lower time rental rates than are currently charged for similar computer capacity.

The Company is engaged in an increasingly competitive field. Its competitors at present are: manufacturers of computer equipment (who sell time as a computer-marketing device); the owners and lessees of computers (either private, institutional or governmental bodies) who have excess time to sell, the availability of such time being subject, of course, to the needs of such owners or lessees; at least two major U.S. Computer Utilities who might compete with the Company (one of which has installed certain remote terminals in Western Canada and a terminal in Toronto, Ontario and has contracted for the installation in Calgary, within the next few months, of a Computer system similar to the Company's Computer installation) and a substantial number of other concerns of various sizes located in Canada and the United States supplying overlapping services.

Notwithstanding the new flat-rate transmission line rental plans mentioned above on page 4 hereof under the heading "Markets", which may have the effect of making distant competitors more competitive with the Company, the area of effective competition by other Computer Utilities is limited by long distance telephone charges. In the Company's view, there is at present no direct competition with the Company in Eastern Canada. This situation could change with the installation in Toronto, Montreal or Ottawa of a computer system similar to the Company's Computer, by a qualified Computer Utility. At present, the Company is not aware of any such plans other than the announced intention of a U.S. Computer Utility to install and operate in Toronto and Montreal Series 1108 Univac computers. Also, reductions by manufacturers or others in their time rental charges could have an adverse effect on the Company and could thus affect the Company's ability to acquire new customers on a basis attractive to it.

Proposed Business of Computel Leasing

General

Computel Leasing proposes to engage in the business of acquiring and leasing electronic data processing equipment, including computers and related equipment of the type described below under the heading "Computer Equipment", which equipment is commonly referred to as "computer equipment" or "computers".

Computer Equipment

Computel Leasing has not as yet purchased any computer equipment for the purposes of its business. However, as mentioned on page 8 hereof under the heading "Markets", Computel Leasing has a number of major leasing contracts under negotiation which could result in the purchase by Computel Leasing of computer equipment.

Computel Leasing does not propose to restrict itself to computer equipment produced by any one manufacturer or to so-called "third generation" equipment. Computel Leasing expects that it will mainly

be purchasing and leasing large systems such as System 360/65 and 360/85 computers sold by International Business Machines Corporation and its Canadian subsidiary ("IBM"), the Series 1108 computers sold by Univac Division of Sperry Rand Canada Limited ("Univac"), Series 6000 computers sold by Control Data Corporation and its Canadian subsidiary ("Control Data"), and 6500 and 8500 Systems sold by Burroughs Business Machines Limited. Computel Leasing may also acquire smaller computer equipment such as Univac's 1004 Series and 9000 Series, IBM's System 360/20, the 115 model of General Electric Company of Canada Limited and the 200 Series of Honeywell Controls Limited which are chiefly useful to the Company for their card reading and printing facilities as remote terminals.

The principal sources of Computel Leasing's business will be established users of computer equipment who desire to obtain the advantages of leasing rather than owning such equipment and to do so on terms more favourable than those offered by equipment manufacturers. Computel Leasing will obtain substantially all of its computer equipment by means of a series of simultaneous transactions in which either (a) a customer who has been leasing equipment from a manufacturer arranges for the sale of such equipment to Computel Leasing and then leases it back or (b) Computel Leasing purchases new equipment directly from an equipment manufacturer and leases it to the customer. In both instances, Computel Leasing presently intends to lease at rates below those which would presently be charged by equipment manufacturers for such computer equipment. In accordance with IBM's present pricing policy which is generally followed by other manufacturers, purchases by Computel Leasing of large computer systems ordered new by its customers are at list price, and in the case of computers already installed, at discounts which may range up to approximately 10%. At present, it is the policy of Computel Leasing that all of its computer equipment be purchased only after a lease commitment therefor has been obtained.

Computel Leasing proposes to depreciate the cost of its computer equipment for financial reporting purposes on a straight line basis over the estimated economic useful life of the equipment concerned. It is the present estimate of Computel Leasing that the economic useful life of the major part of the computer equipment which it expects to purchase will be eight years, with provision for a 15% residual or salvage value. However, Computel Leasing intends to review its estimate from time to time. More rapid technological developments than are now foreseen by Computel Leasing may make this rate of depreciation inadequate.

Method of Operation

Computel Leasing will lease, primarily, electronic data processing equipment of the general purpose digital variety which processes information represented by combinations of discrete or discontinuous data, as compared with equipment of the analog variety which processes continuous data.

The business of Computel Leasing will be carried on separately from that of the Company. It will be operated from premises at 216 Laurier Avenue West, Ottawa and 250 Bloor Street East, Toronto, in both cases sub-leased from the Company. Within the next year, it is anticipated that Computel Leasing will have three full-time employees. This number of employees is considered adequate for presently contemplated operations because of contract arrangements, outlined below, whereby there is made available to Computel Leasing services of the Company for technical advice as to the customer's needs and for marketing and certain administrative assistance. The services to be rendered by the employees of Computel Leasing will include soliciting prospective lessees, issuing lease proposals, preparing credit analysis on prospective lessees, negotiating terms of leases and arranging for the execution of documents, billing lessees and performing certain other administrative, accounting and similar services. Under its agreement with the Company, which is described as item (14) on page 20 hereof under the heading "Material Contracts", the Company will provide technical advice as to customers' needs, which includes evaluating and recommending computer equipment proposed for lease to customers and assistance with the marketing, administrating, accounting and similar services described above. Computel Leasing expects to have marketing representatives located in Toronto and Montreal.

The Company and Computel Leasing have entered into an employment contract dated August 20, 1968 with Ronald T. Lane (the "employee"), the new general manager of Computel Leasing, which provides for his employment as general manager of Computel Leasing for a term of three years commencing September 1, 1968, subject to termination by either Computel Leasing or the employee at any time on three months' notice. The agreement also provides (i) for the issue and allotment by Computel Leasing to

the employee of a number of common shares of Computel Leasing (which when issued will be equivalent to 2% of its issued and outstanding stock) at a price of $2,000 and for the purchase by the Company from the employee of the said common shares of Computel Leasing at the same price in the event of the early termination of the employee's employment; and (ii) for the grant by the Company to the employee of an option to purchase 1,000 Shares of the Company during a three-year period commencing on September 1, 1968, exercisable at a maximum rate of 500 Shares per annum, at a price of $33 per Share.

Leases will generally be written for an initial term of at least three years, with options for renewal containing provision for at least ninety days' notice of termination; but it is also expected that leases will be written for initial terms of up to eight years.

Computel Leasing will not normally, during the initial term of its leases, recover fully its outlays for such equipment, which outlays will include, as a minimum, the purchase price, marketing expenses, interest charges and insurance charges. Such leases are known in the industry as "non-payout" leases. To recover fully such outlays at its proposed rental rates, Computel Leasing would have to lease its computer equipment for a period of approximately 7 years ("full payout" period). If, therefore, the first lessee does not continue leasing computer equipment from Computel Leasing for the full payout period, Computel Leasing must attempt to obtain new lessees, to sell returned computer equipment at prices sufficient to cover the investment not returned through lease payments, or to utilize returned computer equipment in some other manner. Locating subsquent users for its equipment may involve substantial cost to Computel Leasing in the form of lost revenue, re-marketing costs and the possible need to provide additional services to subsequent users. Computel Leasing can give no assurance that it can succeed in any of these alternatives, and in this regard rapid obsolescence of the computer equipment could be an adverse factor. However, there are two additional favourable factors. Inasmuch as programming and system analysis and design costs in a typical commercial computer installation have increased substantially over the past few years, Computel Leasing expects that its lessees will be reluctant to repeat this investment within five to ten years and will, therefore, continue to lease for a long enough period to enable Computel Leasing to recover the initial cost of its equipment. Also, in the case of Computel Leasing, the Company is expected to be a market for computer equipment.

Computel Leasing initially does not expect to repair, maintain or service its computer equipment but will instead enter into maintenance agreements with the manufacturer of the equipment which it purchases. Under Computel Leasing's present policy, maintenance and insurance costs will be borne by it and taxes (other than taxes based on income) will be borne by customers.

Until recently, it has been the policy of IBM and other equipment manufacturers to provide certain educational, systems assistance and other services only to customers who are "first users" of its computer equipment. IBM has announced that it will now make such services, except for sales/systems engineering guidance and certain programming maintenance, available to subsequent users of IBM computer equipment. It is expected that other manufacturers will follow a similar policy. While Computel Leasing expects that all of its customers will be "first users", it anticipates that in the future some of its customers will be subsequent users, and Computel Leasing could be at a disadvantage in attempting to lease computer equipment to any such customers who wish to obtain sales/systems engineering guidance and programming maintenance from an original manufacturer.

Computel Leasing's only sources of funds for the acquisition of computer equipment which it will lease consist of equity capital, borrowings from its parent or others and cash flow from future operations. Its ability to expand will depend upon the availability of additional financing. Computel Leasing has no assurance that it will be able to obtain any such financing on terms that will permit its profitable use.

Computel Leasing has entered into a consulting agreement with the Company for a term of one year commencing July 1, 1968 and to continue thereafter until terminated by either party on ninety days' prior written notice. Under this agreement, the Company acts as a consultant to Computel Leasing and has agreed to advise Computel Leasing concerning selection of equipment for purchase and leasing, the continuing economic utility of such equipment for various purposes, suitability of such equipment for the needs of customers and potential customers and the estimated fair market residual value of such equipment at selected periods in the future. In addition, the Company has agreed to advise Computel Leasing, on request, concerning the market for leasing data processing equipment and will also conduct special

studies in the field for Computel Leasing. The Company has also agreed to perform for any subsidiary of Computel Leasing, at its request, services of the same type, and on the same terms, as it performs for Computel Leasing.

Economic Basis for Computer Leasing

In great measure, the business of Computel Leasing (and the business of similar companies) is made possible as a result of the consent decree in United States of America v. International Business Machines Corporation. The consent decree, entered into in 1956, provides, among other things, that IBM must offer to sell the computers it offers for lease at a price having a commercially reasonable relationship to the IBM lease charges for the computers; that so long as IBM continues repair and maintenance service, it must offer to maintain and repair at reasonable and non-discriminatory prices and terms its computers for the owners thereof; that IBM must offer to sell at reasonable and non-discriminatory prices and terms repair and replacement parts for its computers to the owners thereof during the period when it has such parts available for use in its leased computers; and that IBM must offer to render, without separate charge, to purchasers of computers from it the same type of services, other than maintenance and repair services, which it renders without separate charge to lessees of computers from it.

There can be no assurance that the consent decree will not be modified or authoritatively interpreted in such manner as to have a significant adverse effect on the computer leasing business of Computel Leasing. Computel Leasing has no information, however, that any such adverse modification or interpretation is being sought. Although the foregoing case is not binding legal precedent in Canada, it may be treated as having extra-territorial effect by the U.S. parents of the computer equipment manufacturers operating in Canada.

The current leasing policies of the computer equipment manufacturers are dictated in part by their policy of depreciating large computers over a period which the Company understands is not more than five years. Present informed opinion in the computer industry is that such large computers have a technically useful life of at least ten years, possibly more. In the view of Computel Leasing, it is conservative to treat such large computers as having an economically useful life of at least eight years. The present depreciation policy of Computel Leasing is set forth on page 6 hereof under the heading "Computer Equipment". The foregoing provides a good economic basis for independent computer leasing.

The main risks of computer leasing are obsolescence and the expenses of recovering any equipment surrendered or repossessed from lessees. In dealing with these problems, because of its connection with the Company, Computel Leasing has a number of advantages including (1) the up-to-date technical knowledge available to it from the Company which will permit Computel Leasing to foresee and avoid potentially dangerous situations, (2) the up-to-date market knowledge of computer equipment requirements in Canada available to it from the Company so that Computel Leasing will be in a good position to re-locate repossessed equipment and (3) a possible market in the Company for leased computer equipment. Due to the inflation of skilled wages today's large computers, obsolete though they may be ten years from now, may well prove to be the better value for the net amount then invested in them than a similar investment in new "third generation" equipment.

Markets

Computel Leasing is setting up the first Canadian-owned computer equipment leasing operation in Canada offering "non-payout" contracts. Computel Leasing expects that it will be able to lease equipment to its customers at rates approximately 10-15% below those presently charged by equipment manufacturers.

The success of the computer leasing business depends a great deal on the care taken in selecting prospective lessees, who should be fully solvent, competent in the system to be leased and with a clearly demonstrated need to lease the equipment. Computel Leasing will exercise great selectivity as to which computer systems it will purchase for each customer with a view to minimizing the risk of early lease terminations caused by technological developments and changes in customers' needs. Other factors to be considered before making a lease are the nature of the equipment to be leased, an estimate of the fair market residual value of the equipment as of selected dates throughout and at the end of the lease, an analysis of the continuing economic utility of the equipment and an analysis of its suitability for its intended use by the lessee.

Based on investigations made by Company officials there is a significant demand in certain Federal Government departments in Ottawa and by a number of industrial, commercial, institutional and other concerns in Eastern Canada for leased computer equipment with the capabilities of the computer equipment which Computel Leasing proposes to deal in. The Company and Computel Leasing have had indications of interest from such prospective customers, all in Eastern Canada. At the present time Computel Leasing has a number of contracts under negotiation. In the opinion of the Company and Computel Leasing, a number of governmental, industrial, commercial, institutional and other concerns (both public and private) in Canada, especially in Montreal and in Toronto, are possible lessees of computer equipment from Computel Leasing. Computel Leasing also expects that the expanding business of the Company will provide a captive market for computer equipment available after the termination of leases made by Computel Leasing, because in the Company's opinion such equipment could be profitably used by a Computer Utility such as the Company.

As referred to on page 4 hereof under the heading "Markets", Computel Leasing proposes to purchase from Univac and to lease to the Company for installation in Toronto, Ontario a computer installation consisting of a Series 1108 computer and certain ancillary or peripheral equipment therefor. Computel Leasing anticipates that the purchase contract with Univac and the lease with the Company will be entered into by the parties thereto within the next sixty days.

Competition

As mentioned above, Computel Leasing is setting up the first Canadian-owned computer equipment leasing operation in Canada offering non-payout leases. Although U.S. concerns in the computer leasing business face the usual hazards of entering the Canadian market, including the risk of exchange rate fluctuations, differences in laws and business practices, the relatively thin market for large computers in Canada, and the different climate of the general Canadian business scene (which in the Company's opinion constitutes some barrier to entering the Canadian market without a strong Canadian identification) it must be recognized that the computer leasing business is continental in nature.

Computel Leasing will be engaged in a highly competitive and specialized field. It will be competing with manufacturers of computing equipment (who lease computers as a marketing tool), prospective computer equipment users who are able to finance their own purchases (although the capital cost of such equipment must compete with the other capital demands of their main businesses), many banks and finance companies and a rapidly increasing number of other companies the principal business of which, like that of Computel Leasing, is the purchasing of computer equipment and leasing it to others. All manufacturers, as well as some non-manufacturing leasing companies, provide maintenance, repair and programming services through their own organizations. As Computel Leasing does not propose to offer these services, it may be competitively handicapped. Conditions in the industry require the Company to charge lower equipment rental rates than the equipment manufacturers. Therefore, changes by equipment manufacturers and non-manufacturing lessors, in rental rates, sales prices or servicing policies could have a materially adverse effect on the Computel Leasing's ability to acquire new customers and equipment on a basis attractive to it and on the ability of Computel Leasing to re-lease or sell computer equipment on profitable terms. When Computel Leasing endeavours to re-lease, sell or utilize computer equipment which it may acquire in the future, it will be again competing with manufacturers and other lessors and possibly other users.

In the view of the Company and Computel Leasing, Computel Leasing will have a considerable advantage in serving the Eastern Canadian market for leased computer equipment because of the up-to-date technical and commercial knowledge of the Canadian computer market available to Computel Leasing through the Company.

Speculative Nature

Any investment made in the Debentures being offered must be considered as speculative since the Company does not yet have an earnings record. The nature of the business of Computel Leasing gives rise to certain factors which may affect the speculative nature of any investment made in the Debentures and in this connection reference is made to the description of the "Proposed Business of Computel Leasing" contained on pages 5 to 9 inclusive hereof. In particular reference is made to the first three sentences in the last paragraph commencing on page 6, the third full paragraph on page 7 relating to the sources of funds for Computel Leasing, the first two sentences in the fourth paragraph on page 8 and the first two sentences in the second paragraph under the heading "Competition" on page 9.

Plan of Distribution

Under an agreement dated August 10, 1968 with A. E. Ames & Co. Limited as underwriter, the Company has agreed to sell and the underwriter has agreed to purchase the $5,000,000 aggregate principal amount of Debentures offered hereby at an aggregate price of $4,750,000 payable in cash against delivery of such Debentures on or about September 19, 1968. The obligations of A. E. Ames & Co. Limited are subject to the fulfilment of legal requirements and certain other terms and conditions stated in such agreement, but in no event may it purchase part only of the Debentures.

Use of Proceeds

Of the net proceeds amounting to approximately $4,700,000, $4,350,000 will be loaned to or invested in the capital of Computel Leasing which will employ such funds for the acquisition of computer equipment for leasing to others and for working capital, and the balance of the net proceeds of approximately $350,000 will be added to the general funds of the Company for working capital. The said $4,350,000 will be paid into and will become the Loan Fund which is referred to on page 13 hereof under the heading "Loan Fund".

Consolidated Capitalization

	Authorized or to be authorized	Outstanding May 31, 1968	Outstanding August 20, 1968	Outstanding on completion of this financing
Long Term Debt of Company:				
9% First Mortgage Sinking Fund Bonds due January 15, 1975........	$1,350,000	$1,350,000	$1,350,000	$1,350,000
6% Convertible Subordinated Debentures due September 15, 1988 (2) & (3)........	$5,000,000	nil	nil	$5,000,000
Capital Stock of Company:				
Common shares without nominal or par value (2)...	1,000,000 shs.	500,000 shs. ($990,791)	500,000 shs. ($990,791)	500,000 shs. ($990,791)

(1) There are no items to be included in the capitalization table in connection with Computel Leasing.

(2) 144,821 common shares without nominal or par value of the Company will be reserved for issuance upon conversion of the 6% Convertible Subordinated Debentures offered hereby and upon exercise of stock options granted to employees. See Note 3 to the Financial Statements appearing on page 25 hereof.

(3) The indebtedness evidenced by the Debentures is subordinated to the indebtedness evidenced by the Bonds. See page 13 under the heading "Subordination".

(4) The obligations of the Company with respect to leases of real property are set forth in Note 6 to the Financial Statements appearing on page 26 hereof.

Description of the Debentures

The following is a brief summary of the material attributes and characteristics of the Debentures, which does not purport to be complete and is qualified in its entirety by reference to the Trust Indenture.

Trust Indenture

The 6% Convertible Subordinated Debentures (herein called the "Debentures") will be issued under a trust indenture (herein called the "Trust Indenture") dated as of August 15, 1968 and to be entered into between the Company and Canada Permanent Trust Company, as Trustee (herein called the "Trustee"). As mentioned on page 21 hereof, the Trustee is also the Transfer Agent and Registrar of the common shares without nominal or par value in the capital of the Company.

The Debentures

The aggregate principal amount of Debentures that may be issued under the Trust Indenture is limited to $5,000,000 of lawful money of Canada. The Debentures will be dated September 15, 1968; will mature on September 15, 1988; and will bear interest at the rate of 6% per annum payable half-yearly on March 15 and September 15 in each year. The Debentures will be available in fully registered form in denominations of $1,000 and authorized multiples thereof and in coupon form in the denomination of $1,000 with provision for registration as to principal only. Coupon bonds and fully registered bonds will be interchangeable. The register for the Debentures will be kept by and at the principal office of the Trustee in each of the Cities of Montreal, Toronto, Winnipeg and Vancouver.

Principal, interest and premium, if any, will be payable in lawful money of Canada at any branch in Canada of the Company's Bankers, at the holder's option. Interest on fully registered Debentures will be payable (except on maturity or on redemption when at the Company's option interest may be paid on surrender thereof) by cheque mailed to the registered holders of Debentures.

The Debentures will be direct obligations of the Company and will be secured initially by the Loan Fund referred to on page 13 hereof, but will not be secured by any mortgage or charge.

Redemption and Purchase

The Debentures are to be redeemable at the option of the Company (when not in default under the Trust Indenture) for other than sinking fund purposes at any time as a whole or from time to time in part by selection by lot on not less than 30 days' notice at the principal amount thereof together with unpaid interest accrued thereon to the date specified for redemption and the premium (if any) specified hereunder:

If redeemed in the twelve-month period beginning September 15	Premium (per cent of principal amount)	If redeemed in the twelve-month period beginning September 15	Premium (per cent of principal amount)
1968	6.00	1978	3.00
1969	5.70	1979	2.70
1970	5.40	1980	2.40
1971	5.10	1981	2.10
1972	4.80	1982	1.80
1973	4.50	1983	1.50
1974	4.20	1984	1.10
1975	3.90	1985	.70
1976	3.60	1986	.30
1977	3.30	1987	.00

In addition, the Trustee will have the right to redeem the Debentures at the principal amount thereof together with unpaid interest thereon accrued to the date specified for redemption for sinking fund purposes as referred to below under the heading "Sinking Fund" and on the termination of the Loan Fund (if applicable) as referred to on page 13 hereof under the heading "Loan Fund".

The Company will have the right, at any time and from time to time, to purchase Debentures in the open market or by tender or private contract at any price not exceeding the redemption price thereof applicable at the time of purchase for other than sinking fund or Loan Fund purposes, plus costs of purchase.

Debentures redeemed or purchased by the Company shall be cancelled and shall not be re-issued.

Sinking Fund

The Company will covenant in the Trust Indenture to establish a sinking fund and for such purpose to pay to the Trustee on September 15, in each of the years 1979 to 1987 inclusive, an amount sufficient to retire $500,000 principal amount of Debentures as a mandatory sinking fund retirement in each of such years. The Company may, at its option, receive credit against its sinking fund obligations for the principal amount of (a) Debentures acquired by the Company and surrendered for cancellation, (b) Debentures redeemed or called for redemption (otherwise than through the operation of the sinking fund) and (c) converted Debentures.

Moneys received by the Trustee for the sinking fund for the Debentures will be applied by the Trustee to the purchase of Debentures, on the open market or by tender or by private contract, at prices not exceeding the principal amount thereof, plus accrued interest and costs of purchase, until the Trustee has, for the sinking fund, the required principal amount of Debentures, provided that if within a period of sixty days following receipt by the Trustee of any such moneys or within such shorter period as the Company may from time to time designate, the Trustee has been unable to complete the mandatory sinking fund retirements with cash then held by the Trustee in the sinking fund pursuant to the provisions of the Trust Indenture, the Trustee will forthwith apply such moneys (unless the same amount to less than $50,000 when such moneys shall only be so applied upon request of the Company), upon giving at least thirty days prior notice, to the redemption of Debentures selected by lot at the principal amount thereof, plus accrued interest to the date specified for redemption, to the principal amount necessary to complete mandatory sinking fund retirement. If at any time any moneys provided for the sinking fund remain in the hands of the Trustee after the mandatory sinking fund retirements have been effected, such moneys will be repaid to the Company.

The Trust Indenture will not permit the Company to anticipate sinking fund obligations by the deposit of cash with the Trustee.

Debentures purchased or redeemed through the sinking fund shall be cancelled and shall not be re-issued.

Conversion

The Debentures will be convertible into common shares without nominal or par value (herein some times called the "Shares") in the capital of the Company at the principal offices of the Trustee in Toronto, at any time before September 15, 1978, at the rate of 28 Shares for each $1000 principal amount of Debentures, except that such privilege will terminate at the close of business on the last business day prior to any redemption date as to Debentures called for redemption on such date. The Trust Indenture will contain provisions to the effect that the conversion rate will be subject to adjustment in certain cases including subdivisions, consolidations or reclassifications of outstanding Shares and provisions to protect the right of conversion in the event of any capital reorganization or reclassification of the Company or the consolidation or amalgamation of the Company with or into another corporation or the sale or transfer of the assets of the Company as a whole or substantially as a whole. No adjustment in respect of interest on the Debentures or dividends on the Shares will be made upon conversion of the Debentures. No fractional shares will be issued upon conversion but, at the option from time to time of the Company, an adjustment in cash may be made based on the then current conversion rate or scrip in lieu of fractional shares may be issued. The Company will covenant in the Trust Indenture that it will at all times reserve sufficient of its unissued Shares to satisfy the conversion right of the Debentures.

Converted Debentures shall be cancelled and shall not be re-issued.

Subordination

The payment of the principal of and interest and premium, if any, on the Debentures will be subordinated in right of payment to the prior payment in full of all Senior Indebtedness, whether outstanding on the date of the Indenture or thereafter incurred.

Senior Indebtedness will comprise the principal of and interest and premium, if any, on (a) indebtedness (other than indebtedness evidenced by the Debentures but including the indebtedness evidenced by the Bonds, as described on page 14 hereof), for money borrowed by the Company or for money borrowed by others for the payment of which the Company is responsible or liable, (b) indebtedness created, incurred, assumed or guaranteed by the Company in connection with the acquisition by it or by others of any businesses, properties or other assets, and (c) renewals, extensions and refundings of any such indebtedness, unless in any of the cases specified in (a), (b) or (c) above it is provided by the terms of the instrument creating or evidencing such indebtedness that such indebtedness or such incurring, assumption or guarantee thereof it ranks pari passu with or is subordinate in right of payment to the Debentures.

Upon any distribution of the assets of the Company on or in connection with any partial or total liquidation or any reorganization or insolvency of the Company, the holders of all Senior Indebtedness will be entitled to receive payment in full before the holders of the Debentures are entitled to receive any payment. Notwithstanding the subordination provisions, (a) the Company may at any time, except during the pendency of any such liquidation, reorganization or insolvency and except when any Senior Indebtedness is in default (subject, however, to the right to complete purchases or redemptions of Debentures initiated before such default), make payments of principal and interest and premium, if any, on the Debentures and (b) the Trustee may apply any moneys deposited with it to the payment of the principal of and interest and premium, if any, on the Debentures.

Dividend Restriction

The Company will covenant in the Trust Indenture not to make any payment or distribution to its shareholders or any of them by way of dividend in cash or in specie or by way of purchase, redemption or reduction of capital or by payment of tax on undistributed surplus under Section 105 of the Income Tax Act (Canada) or any section or provision amending the said Section 105 or substituted therefor, so long as any Debentures remain outstanding; provided that the prohibition of this covenant will not apply to (i) the payment of dividends on or the satisfaction of mandatory retirement provisions in respect of any preferred shares of its capital (other than in respect of preferred shares issued by way of stock dividend on common shares of the Company), (ii) the declaration, payment or distribution of stock dividends, or (iii) any payment or distribution by way of purchase, redemption or reduction of capital if made out of the proceeds of an issue of shares by the Company made concurrently with or prior to such purchase, redemption or reduction.

Loan Fund

$4,350,000 of the proceeds of the Debentures offered hereby will be deposited with and held by the Trustee as a "Loan Fund" upon the terms and conditions set forth in the Trust Indenture, including that the Loan Fund will be the only property mortgaged to secure the Debentures.

To the extent that the Company is not entitled to immediately draw monies from the Loan Fund, the Trustee will, subject to certain provisions, invest and reinvest such proceeds from time to time in accordance with the instructions of the Company in non-negotiable deposit receipts of any Canadian Chartered Bank and in investments of the kind described or referred to in sub-paragraphs (a) to (i), both inclusive, and sub-paragraph (ja) of subsection 1 of section 63 of the Canadian and British Insurance Companies Act (Canada) maturing not later than the earlier of (i) 180 days after the date of investment or reinvestment or (ii) December 30, 1970.

The provisions of the Trust Indenture will permit the Company from time to time to draw monies from the Loan Fund provided that the aggregate of such monies drawn from time to time shall not exceed the aggregate of

(a) 110% of the Cost to Computel Leasing of computer equipment or computers to which Computel Leasing takes title, and
(b) the aggregate principal amount of Debentures converted pursuant to the terms of the Trust Indenture.

The Trust Indenture will provide that payments may be made by the Trustee from the Loan Fund upon receipt by the Trustee from the Company of a written request for a payment from the Loan Fund accompanied, among other things, by (1) a certificate of Computel Leasing setting forth particulars of the aggregate cost of computer equipment to which Computel Leasing has taken title and (2) an opinion of counsel that the contemplated payment from the Loan Fund complies with the provisions of the Trust Indenture.

Any balance of monies remaining in the Loan Fund on December 31, 1970 (or such earlier date as the Company may designate) will be used by the Trustee within the next sixty days to purchase Debentures in the open market or by tender or private contract, or to redeem Debentures selected by lot, upon giving at least thirty days prior notice, at the principal amount thereof plus accrued interest to the date specified for redemption.

The Trust Indenture will define "Cost" of any computer equipment or computer acquired by Computel Leasing to mean the aggregate of:

(a) the amount of the price paid by Computel Leasing therefor; and

(b) the amount (not exceeding 2% of the amount paid pursuant to subparagraph (a) hereof) expended by Computel Leasing for interest, taxes, engineering and legal expenses, superintendence, insurance, casualties, indemnities, consulting fees and general overhead expense, which in the opinion of the auditors of Computel Leasing was expended in respect of the acquisition, delivery, installation and leasing thereof.

First Mortgage Sinking Fund Bonds

The outstanding 9% First Mortgage Sinking Fund Bonds (herein called the "Bonds") of the Company were issued under and are secured by a Deed of Trust and Mortgage (herein referred to as the "Trust Deed") dated as of January 2, 1968 and made between the Company and Victoria and Grey Trust Company, as Trustee. The Bonds are direct obligations of the Company and are secured, subject to permitted encumbrances as defined in the Trust Deed, by a first fixed and specific mortgage, pledge and charge on and of the Computer as described on page 3 hereof. $1,350,000 aggregate principal amount of Bonds have been issued under the Trust Deed and no additional Bonds may be issued thereunder. The Trust Deed for the Bonds contains a dividend restriction in the same form as the Trust Indenture for the Debentures, as referred to on page 13 hereof.

Interest Requirements

The maximum annual interest requirements on the Debentures will amount to $300,000. The maximum annual interest requirements on the Bonds and the Debentures will aggregate $421,500. The Company has no history of earnings to meet these interest requirements.

Asset Coverage

The consolidated net tangible assets of the Company and Computel Leasing as at May 31, 1968, as shown in the accompanying Pro Forma Consolidated Balance Sheet and before deduction of long term debt but after giving effect to the present financing, are $6,845,432. Such net tangible assets are equivalent to approximately $1,078 for each $1,000 principal amount of the $6,350,000 principal amount of long term debt outstanding as at May 31, 1968.

Description of the Shares

General

The capital of the Company consists solely of common shares without nominal or par value (herein sometimes called the "Shares"). The Shares are entitled (subject to the restrictions referred to below) to dividends as and when declared by the board of directors; are entitled to one vote per share; are entitled, upon liquidation, to receive pro rata such assets of the Company as are distributable to shareholders; and have no pre-emptive or conversion rights. The outstanding Shares and the Shares to be issued upon conversion of the Debentures offered by this prospectus are and will be fully paid and non-assessable.

Dividend Policy and Restrictions

The Company has paid no dividends on the Shares and presently expects to retain any earnings to finance the development and possible expansion of its business and the business of Computel Leasing.

The payment of dividends on the Shares of the Company is restricted by the provisions of the Trust Indenture for the Debentures as more particularly described on page 13 hereof under the heading "Dividend Restriction", and similarly by the provisions of the Trust Deed for the Bonds as more particularly described on page 14 hereof under the heading "First Mortgage Sinking Fund Bonds". Subject to the foregoing restrictions and policy, the payment of dividends will ultimately be determined by the board of directors of the Company on the basis of earnings, financial requirements and other relevant factors.

Prior Sales

From September 6, 1967 (the date of incorporation) to the date hereof, the Company has issued and sold 500,000 shares at an aggregate price of $990,791 (after making adjustment for the changes provided by the Supplementary Letters Patent dated November 20, 1967 and May 4, 1968 referred to on page 3 hereof under the heading "The Company"), as follows:

Number of Shares	Price per Share	Aggregate Price
100,000	$0.40	$ 40,000
25,000	0.80	20,000
85,000	1.66⅔	141,666
20,000	2.50	50,000
270,000	3.00	739,125
500,000		$990,791

Market Price

The common shares of the Company have been traded over the counter since February, 1968. The table shown below sets out the high and low sale price for the shares (after giving effect to the 10 for 1 split in May, 1968) in each of the months March, 1968 to August, 1968 inclusive, according to the records of A. E. Ames & Co. Limited. The last sale of the shares on August 20, 1968 according to the records of A. E. Ames & Co. Limited was $34.

	March	April	May	June	July	August (1)
High.......	$13	$21	$27	$28	$36½	$35½
Low........	$10	$12	$16½	$24	$24½	$32

(1) To August 20, 1968

Shareholders and Management

Principal Shareholders

To the knowledge of the Company, the following are the only shareholders of the Company who own of record or beneficially, directly or indirectly, 10% or more of the outstanding common shares without nominal or par value of the Company:

Name and Address	Designation of class	Type of ownership	Number of shares owned	Percentage of class
W. D. Beamish.......	common shares	beneficial and record	50,000	10%
R. T. Horwood.......	common shares	beneficial and record	50,000	10%

The following table sets forth the particulars of common shares without nominal or par value of the Company beneficially owned, directly or indirectly, by all the directors and senior officers of the Company as a group as at July 9, 1968:

Designation of class	Number of shares beneficially owned	Percentage of class
common shares........	118,590	23.7%

Certain of the foregoing shares and a further 10,800 shares of two previous directors are the subject of three escrow agreements described on page 18 hereof under the heading "Escrowed Shares".

Directors and Officers

The names, home addresses in full, all positions and offices held with the Company and the principal occupations within the five preceding years of the directors and officers of the Company are set forth below:

Name and Adress	Office	Principal Occupation
WARREN DELACOUR BEAMISH 298 Clemow Avenue, Ottawa, Ontario	President and Director	President of the Company
ROBERT TEMPLE HORWOOD 156C Woodridge Crescent, Ottawa, Ontario	Vice-President, Secretary, Assistant Treasurer and Director	Vice-President of the Company
BERNARD DELACOUR BEAMISH 5 Cheviot Place, Toronto, Ontario	Treasurer and Director	Designer-Consultant of Automation Systems
FREDERICK BANCROFT BROOKS-HILL 41 Second Street, Oakville, Ontario	Director	Assistant Vice-President Confederation Life Association
GEORGE RICHMOND COGAR R.D. 3, Frankfort, New York, U.S.A.	Director	President Cogar Information Systems Inc.
CHRISTOPHER GEORGE FLEMING 620 Fourth Avenue West, Owen Sound, Ontario	Director	General Manager Richardson Bond & Wright Ltd.
CHARLES EDWARD O'CONNOR 1972 Norway Crescent, Ottawa, Ontario	Director	Partner Messrs. Gowling, MacTavish, Osborne & Henderson
NORMAN JOHN SHORT 4 May Street, Toronto, Ontario	Director	President Guardian Growth Fund Limited
ROBERT NEWMAN STEINER Mill Road, Ancaster, Ontario	Director	Senior Vice-President A. E. Ames & Co. Limited and Partner, A. E. Ames & Co.

During the last five years, all of the directors and officers of the Company have been employed in the various capacities (or in other capacities with the same employers) indicated opposite their names under the heading "Principal Occupation" other than as follows:

W. D. Beamish was an Account Executive and held other positions with Univac Division of Sperry Rand Canada Limited during the period 1961 to August 28, 1967, prior to his employment by the Company on September 6, 1967.

R. T. Horwood was associated with Aluminum Company of Canada Limited until September 30, 1964; thereafter he was Chief Systems Programmer of the University of Montreal until May, 1966; and thereafter he was a Computer Specialist and Chief, Computer Systems Division, National Energy Board, until September 15, 1967, prior to his employment with the Company on that date.

G. R. Cogar was a staff consultant with Univac Division of Sperry Rand Corp. until August, 1964; thereafter he was Vice-President, Engineering, Mohawk Data Sciences Corporation until 1967 when he took his present position with Cogar Information Systems Inc.

N. J. Short has also spent a considerable portion of his time, since 1965, as President of Norman Short & Associates Limited, Investment Counsel.

Remuneration

Since the incorporation of the Company on September 6, 1967 until June 30, 1968 the aggregate remuneration paid by the Company and Computel Leasing to the senior officers (including the five highest paid employees) of the Company was $46,558. No remuneration was paid by the Company and Computel Leasing to directors as such.

No pension or retirement benefits are payable by the Company and Computel Leasing to senior officers or directors except under the Canada Pension Plan.

Management Interests

The only directors and senior officers, the only shareholders named in the first paragraph under the subheading "Principal Shareholders" on page 15 hereof and the only associates or affiliates of the foregoing directors, senior officers and shareholders having any material interest, directly or indirectly, in any transaction with the Company during the three years prior to the date of this prospectus are as follows:

W. D. Beamish is a full-time employee of the Company pursuant to the Employment Contract referred to in item (5) on page 19 hereof under the heading "Material Contracts".

R. T. Horwood is a full-time employee of the Company pursuant to the Employment Contract referred to in item (6) on page 20 hereof under the heading "Material Contracts".

R. N. Steiner is a Senior Vice-President and shareholder of A. E. Ames & Co. Limited and, as such, had an interest in the Underwriting Agreements referred to in items (7) and (12) on page 20 hereof under the heading "Material Contracts".

Options to Purchase Shares

An option has been granted to a key employee of the Company to purchase 3,000 Shares during the five year period commencing May 1, 1968, exercisable at a maximum rate of 600 Shares per annum, at a price of $16 per Share for the first 1,500 Shares and of $24 per Share for the remaining 1,500 Shares. An option has also been granted to a key employee of Computel Leasing to purchase 1,000 Shares during the three-year period commencing September 1, 1968, exercisable at a maximum rate of 500 Shares per annum, at a price of $33 per Share. In addition, options have been granted to certain other employees of the Company to purchase in the aggregate 821 Shares as detailed below. Details of options to purchase Shares outstanding at August 20, 1968 are as follows:

Group	Options granted No. of Shares	Exercise price per Share	Market Value per Share at date of grant	Market Value per Share at August 20, 1968	Expiry Date
(a) Directors and senior officers of the Company	Nil	—	—	—	—
(b) Key employees of the Company or Computel Leasing	1500	$16	$16	$34	30/4/73
	1500	24	16	34	30/4/73
	1000	33	33	34	30/8/71
(c) Other employees of the Company	178	20	22	34	31/12/68
	43	30	33	34	31/12/68
	600	30	33	34	13/8/71
	4,821				

Escrowed Shares

To the knowledge of the Company, the following table sets forth the particulars of the common shares without nominal or par value of the Company held in escrow:

Designation of class	Number of Shares held in escrow	Percentage of class
common shares.....	183,000	36.6%

The 100,000 shares held by Warren D. Beamish and Robert T. Horwood (as referred to on page 15 hereof under the subheading "Principal Shareholders") are subject to an escrow agreement dated January 2, 1968 between them, the Company and Canada Permanent Trust Company as Escrow Agent, under which such 100,000 shares are irrevocably held in escrow by the Escrow Agent until released from escrow as therein provided. Subject to release from escrow at any time upon the prior written consent of the Company and the Ontario Securities Commission, Messrs. Beamish and Horwood have covenanted in the agreement that they will not make any application for release of shares from escrow until after December 31, 1969 and that thereafter they will not apply for release from escrow at a rate faster than three equal annual instalments, equally between Messrs. Beamish and Horwood, on the 31st day of December in each of the years 1970, 1971 and 1972, commencing December 31, 1970. The agreement provides that such shares shall not be transferred, hypothecated or otherwise alienated within escrow without the prior written consent of the Ontario Securities Commission. The agreement also provides that it is irrevocable to the extent that it may not be amended to provide for the earlier release of such 100,000 shares from escrow and that, in the event that either of Warren D. Beamish or Robert T. Horwood leaves the employment of the Company prior to January 1, 1973, no further shares will be released from escrow to the departing employee prior to December 31, 1972, subject always to the prior written consent of the Company and the Ontario Securities Commission. Similar prior written consents are also required from the Quebec Securities Commission.

The 19,300 Shares of Messrs. B. D. Beamish, F. B. Brooks-Hill, J. S. Corrigan, C. E. Coupal and R. N. Steiner (who are or were directors of the company) and the 38,700 Shares held by Dr. J. L. Coupal, Messrs. R. W. Brooks-Hill, A. N. Steiner and E. W. Steiner, and Robwaral Ltd. (who are relatives of or controlled by directors or previous directors of the Company), being 58,000 Shares in all which are beneficially owned, directly or indirectly, by directors or previous directors of the Company or their relatives, are subject to an Escrow Agreement dated January 2, 1968 between such shareholders, the Company and Canada Permanent Trust Company as Escrow Agent, under which such 58,000 shares are irrevocably held in escrow by the Escrow Agent until released from escrow at any time upon the prior written consent of the Company and the Ontario Securities Commission. Similar prior written consents are also required from the Quebec Securities Commission. The agreement provides that such shares shall not be transferred, hypothecated or otherwise alienated within escrow without the prior written consent of the Ontario Securities Commission and that it is irrevocable to the extent that it may not be amended to provide for the earlier release of such 58,000 shares from escrow.

The 25,000 shares held by certain key employees of the Company are subject to an employees escrow agreement dated as of November 30, 1967 between such employees, the Company and Canada Permanent Trust Company as Escrow Agent, under which such 25,000 shares are irrevocably held in escrow by the Escrow Agent until released from escrow as therein provided. The agreement provides that such shares may be released from escrow in five equal annual instalments pro rata among the employees beneficially entitled thereto on the 31st day of December in each of the years 1968 to 1972 inclusive, commencing on December 31, 1968. The agreement also provides that it is irrevocable to the extent that it may not be amended to provide for the earlier release of such shares from escrow and that, in the event that any such employee leaves the employment of the Company prior to January 1, 1973, no further shares will be released from escrow to any such departing employee prior to December 31, 1972. The employees escrow agreement also provides that such shares shall not be mortgaged or hypothecated, but specifically provides that the shares of any such employee

(i) whose employment is terminated other than by death, or

(ii) who voluntarily wishes to dispose of some or all of his shares,

may be acquired at $0.80 per share (after making adjustment for the changes provided by Supplementary Letters Patent dated May 4, 1968 referred to on page 3 under the heading "The Company") by other

employees of the Company designated by the Company's board or, in default thereof, pro rata by the remaining employees who are parties to the agreement who indicate their desire to purchase such shares.

Promoters

The two founders of the Company are its president, Warren D. Beamish, and its vice-president, Robert T. Horwood. These two each have approximately seven years' experience in the computer industry. Mr. Beamish graduated from the University of Toronto in Engineering Physics and has spent the major part of his career with Univac Division of Sperry Rand Canada Limited, latterly as manager of large scale marketing to the Federal Government in the Ottawa area. Mr. Horwood graduated from McGill University in Mathematics and Physics and has since that time been directly involved in work with computers, his last position being Chief, Computer Systems Division, National Energy Board. Because of the definition of "promoter" contained in applicable securities legislation, Messrs. Beamish and Horwood are deemed to be promoters of the Company. While no amount has been paid or is intended to be paid to them as such promoters, amounts have been paid to them in consideration of their services as full-time employees of the Company; the amounts of such payments made or to be made are included in the amounts disclosed under the heading "Remuneration" shown on page 17 hereof. In addition, Messrs. Beamish and Horwood have each purchased 50,000 shares of the Company for $20,000 being a cost per share of $0.40 as shown on page 15 under the subheading "Principal Shareholders".

Material Contracts

During the past two years, the Company and Computel Leasing have entered or will enter into the following material contracts in addition to contracts in the ordinary course of business:

(1) An Indenture of Lease made the 29th day of November, 1967 between The Manufacturers Life Insurance Company as Lessor and the Company as Lessee, whereby the Company was granted a leasehold interest in its premises at 222 Laurier Avenue West, Ottawa, Ontario for a term of five years from December 1, 1967 at an annual rental of $16,000, payable monthly in advance, with an option to renew the said Lease upon similar terms and conditions for an additional term of five years from December 1, 1972 at an annual rental of $16,800, payable monthly in advance.

(2) An Employees Escrow Agreement dated as of November 30, 1967 between certain key employees of the Company (who are not directors or senior officers of the Company and who purchased 2,500 shares of the Company at a price of $8 per share) of the first part, the Company of the second part and Canada Permanent Trust Company as Escrow Agent of the third part as referred to on page 18 hereof under the heading "Escrowed Shares".

(3) An Escrow Agreement dated January 2, 1968 between Warren D. Beamish and Robert T. Horwood of the first part, the Company of the second part and Canada Permanent Trust Company as Escrow Agent of the third part, as referred to on page 18 hereof under the heading "Escrowed Shares".

(4) An Escrow Agreement dated January 2, 1968 between B. D. Beamish, F. B. Brooks-Hill, R. W. Brooks-Hill, J. S. Corrigan, C. E. Coupal, Dr. J. L. Coupal, Robwaral Ltd., A. N. Steiner, E. W. Steiner and R. N. Steiner of the first Part, the Company of the second Part and Canada Permanent Trust Company as Escrow Agent of the third Part, as referred to on page 18 hereof under the heading "Escrowed Shares".

(5) An Employment Contract dated January 2, 1968 between the Company and Warren D. Beamish, for a term of employment ending on January 15, 1975, the date of maturity of the Bonds, subject to termination by the Company at any time on six months' notice and by the employee at any time after June 15, 1970 on six months' notice. The agreement contains a covenant restricting competition with the Company within defined areas (which include the Provinces of Ontario and Quebec) during the term of the Bonds.

(6) An Employment Contract dated January 2, 1968 between the Company and Robert T. Horwood, for a term of employment ending on January 15, 1975, the date of maturity of the Bonds, subject to termination by the Company at any time on six months' notice and by the employee at any time after June 15, 1970 on six months' notice. The agreement contains a covenant restricting competition with the Company within defined areas (which include the Provinces of Ontario and Quebec) during the term of the Bonds.

(7) An Underwriting Agreement dated January 2, 1968 between the Company and A. E. Ames & Co. Limited whereby the latter purchased $1,350,000 aggregate principal amount of the Bonds and 270,000 common shares (after making adjustment for the changes provided by The Supplementary Letters Patent dated May 4, 1968).

(8) A Trust Deed dated as of January 2, 1968 between the Company and Victoria and Grey Trust Company, as Trustee providing for the issue of the Bonds referred to in page 14 hereof under The heading "First Mortgage Sinking Fund Bonds"; as amended by a First Supplemental Trust Deed dated as of April 8, 1968 between the said parties making certain ancillary parts of the Computer of the Company which were delivered late subject to the lien of the Trust Deed and making certain minor amendments to the Trust Deed.

(9) An Indenture made as of the 2nd day of January, 1968 between The Manufacturers Life Insurance Company as Lessor, the Company as Lessee and Victoria and Grey Trust Company as Trustee, whereby the said Lessor released and waived, as against the said Trustee for the benefit of the Bondholders, all and any rights which the said Lessor has or may have against the Computer and Accessions thereto pursuant to and by virtue of the said Indenture of Lease referred to in item (1) above.

(10) An Indenture of Lease made the 13th day of May, 1968 between The Manufacturers Life Insurance Company as Lessor and the Company as Lessee, whereby the Company was granted a leasehold interest in its premises at 216 Laurier Avenue West, Ottawa, Ontario for a term of four years and 7 months from May 1, 1968 at an annual rental of $8,700, payable monthly in advance.

(11) An Indenture of Lease made the 30th day of May, 1968 between The Manufacturers Life Insurance Company as Lessor and the Company as Lessee, whereby the Company was granted a leasehold interest in its premises at 250 Bloor Street East, Toronto, Ontario for a term of two years from June 1, 1968 at an annual rental of $4,560, payable monthly in advance.

(12) An Underwriting Agreement dated August 10, 1968 between the Company and A. E. Ames & Co. Limited, as referred to on page 10 hereof under the heading "Plan of Distribution".

(13) A Trust Indenture dated as of August 15, 1968 between the Company and Canada Permanent Trust Company as Trustee, as referred to on page 11 hereof under the heading "Trust Indenture",

(14) An agreement dated as of August 10, 1968, between the Company and Computel Leasing, whereby the Company agrees to provide certain consulting, administrative, accounting and other services to Computel Leasing, as referred to on page 7 hereof under the heading "Method of Operation".

(15) An Employment Contract dated August 20, 1968 made between the Company, Computel Leasing and Ronald T. Lane, the new general manager of Computel Leasing, as referred to on page 6 hereof under the heading "Method of Operation".

Copies of the foregoing contracts (other than the contract numbered (13), and when entered into, copies of contract numbered (13), may be inspected during ordinary business hours at the head office of the Company, 222 Laurier Avenue West, Ottawa, Ontario, while the Debentures offered by this prospectus are in the course of primary distribution to the public and for a period of 30 days thereafter.

Purchasers' Statutory Rights of Withdrawal and Rescission

Sections 63 and 64 of The Securities Act, 1966 (Ontario), sections 70 and 71 of The Securities Act, 1967 (Saskatchewan) and sections 63 and 64 of The Securities Act, 1967 (Alberta) provide, in effect, that where a security is offered to the public in the course of primary distribution:

(a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor not later than midnight on the second business day after the prospectus offering such security is received or is deemed to be received by him or his agent; and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Sections 61 and 62 of the Securities Act, 1967 (British Columbia) provide in effect that, where a security is offered to the public in the course of primary distribution, a purchaser has the same right of rescission described in (b) above and also that a purchaser has a right to rescind a contract for the purchase of a security, while still the owner thereof, if a copy of the last prospectus, together with financial statements and reports and summaries of reports relating to the securities as filed with the British Columbia Securities Commission, was not delivered to him or his agent prior to delivery to either of them of the written confirmation of the sale of the securities. Written notice of intention to commence an action for rescission must be served on the person who contracted to sell within 60 days of the date of delivery of the written confirmation, but no action shall be commenced after the expiration of three months from the date of service of such notice.

Reference is made to the said Acts for the complete texts of the provisions under which the foregoing rights are conferred and the foregoing summary is subject to the express provisions thereof.

Auditors

The auditors of the Company are Messrs. Clarkson, Gordon & Co., Chartered Accountants, 116 Albert Street, Ottawa, Ontario. They have also been appointed auditors of Computel Leasing.

Legal Opinions

The offering is subject to the approval of all legal matters on behalf of the Company by Messrs. Gowling, MacTavish, Osborne and Henderson of Ottawa, and on behalf of the Underwriters by Messrs Blake, Cassels & Graydon of Toronto.

Transfer Agents and Registrars

The transfer agent and registrar for the common shares without nominal or par value in the capital of the Company is Canada Permanent Trust Company at its principal transfer offices in the cities of Montreal, Toronto, Ottawa, Calgary, and Vancouver.

The registers for the registration and transfer of the Debentures will be kept by and at the principal transfer offices of Canada Permanent Trust Company in the cities of Montreal, Toronto, Calgary and Vancouver.

The register for the registration and transfer of the Bonds is kept by and at the principal transfer office of Victoria and Grey Trust Company in the City of Toronto.

Computel Systems Ltd.
(Incorporated on September 6, 1967 under the laws of Canada)

Balance Sheet and Pro Forma Consolidated Balance Sheet
May 31, 1968

ASSETS		Balance Sheet	Pro Forma Consolidated Balance Sheet (note 1)
CURRENT:			
Cash		$ 30,690	$ 380,690
Accounts receivable		69,546	69,546
Prepaid expenses		8,492	8,492
		108,728	458,728
Loan Fund (note 1)			4,350,000
FIXED, AT COST:			
Computer and ancillary equipment		2,218,935	2,218,935
Furniture and fixtures		12,266	12,266
Leasehold improvements		38,810	38,810
		2,270,011	2,270,011
Less accumulated depreciation		81,190	81,190
		2,188,821	2,188,821
OTHER, AT COST:			
Pre-operating expenses (statement 3)		47,642	47,642
Bond and share issue expenses (less amortization)		77,283	377,283
Incorporation expense		5,108	5,108
		130,033	430,033
		$2,427,582	$7,427,582
LIABILITIES			
CURRENT:			
Accounts payable and accrued charges		$ 106,554	$ 106,554
Bond interest payable		45,563	45,563
Current portion of long-term debt		193,000	193,000
		345,117	345,117
LONG-TERM DEBT (note 2):			
9% First Mortgage Sinking Fund Bonds, due January 15, 1975	1,350,000		
Less sinking fund instalment due within one year	193,000	1,157,000	1,157,000
6% Convertible Subordinated Debentures, due September 15, 1988			5,000,000
		1,157,000	6,157,000
SHAREHOLDERS' EQUITY:			
Capital stock (note 3)—			
Authorized:			
1,000,000 common shares without nominal or par value			
Issued:			
500,000 shares		990,791	990,791
Deficit (statement 2)		(65,326)	(65,326)
		925,465	925,465
		$2,427,582	$7,427,582

On behalf of the Board:

(signed) B. D. BEAMISH, Director (signed) R. T. HORWOOD, Director

(See accompanying notes to financial statements)

Computel Systems Ltd.

Statement of Income and Deficit

For the Four Month Period ended May 31, 1968 (Note 4)

INCOME:	
Processing time—contract	$134,418
—other	70,332
Input-Output charges	30,514
	235,264
EXPENSES:	
Salaries and employee benefits	68,234
Rent	5,852
Leased equipment	24,693
Equipment maintenance	18,986
Computer supplies	11,395
Power, heat and maintenance	3,624
Data phone	6,657
Depreciation (note 5)	81,190
Amortization of pre-operating expenses (statement 3)	11,930
Bond interest expense	34,643
Bank interest and charges	4,102
Amortization of bond and share issue expense	4,280
Travel and entertainment	9,480
Legal and audit	3,444
Telephone and telegraph	2,683
Office and stationery supplies	2,617
Delivery expense	1,996
Insurance	1,847
General expenses	1,783
Registrar and transfer agent fees	794
Business taxes	360
	300,590
Net loss for the period, being deficit at May 31, 1968	$ 65,326

(See accompanying notes to financial statements)

Computel Systems Ltd.

Statement of Pre-Operating Expenses and Source and Application of Funds
For the Period from September 6, 1967 to May 31, 1968

Pre-Operating Expenses

Salaries	$33,845
Printing, publishing and stationery supplies	6,018
Travel	5,660
Rent	3,596
Bank interest and charges	3,060
Telephone and telegraph	1,367
Advertising and promotion	1,224
Professional fees	1,112
Computer equipment rental	1,082
General	972
Office expense	929
Trustee fees	875
Insurance	857
Employee benefits	490
Electricity	441
	61,528
Miscellaneous sales	1,956
	59,572
Less amount amortized	11,930
	$47,642

Source and Application of Funds

SOURCE OF FUNDS:		
Shares issued		$ 990,791
Bonds issued		1,350,000
		2,340,791
Loss for the period	(65,326)	
Add back expenses not requiring an outlay of funds		
Depreciation	81,190	
Amortization of bond and share issue expense	4,280	
Amortization of pre-operating expense	11,930	32,074
		2,372,865
APPLICATION OF FUNDS:		
Purchase of computer and ancillary equipment		2,218,935
Furniture and fixtures		12,266
Leasehold improvements		38,810
Pre-operating expense		59,572
Bond and share issue expense		81,563
Incorporation expense		5,108
Portion of long-term debt reclassified as current		193,000
		2,609,254
Deficiency in working capital as at May 31, 1968		$ 236,389

(See accompanying notes to financial statements)

Computel Systems Ltd.

Notes to the Financial Statements

May 31, 1968

1. Pro Forma Consolidated Balance Sheet—

The pro forma consolidated balance sheet at May 31, 1968 gives effect to the following:

(a) the incorporation on June 3, 1968 of a wholly-owned subsidiary Computel Leasing Ltd.

(b) the issue and sale, pursuant to an underwriting agreement dated August 10, 1968 between the Company and A. E. Ames & Co. Limited of $5,000,000 6% Convertible Subordinated Debentures due September 15, 1988 for a cash consideration of $4,750,000 and the payment of estimated expenses of $50,000 in connection with such issue.

(c) the allocation of $4,350,000 of the proceeds of (b) above to a Loan Fund to be held in trust for the Company from which the Company may draw amounts not exceeding the aggregate of (i) 110% of the cost of computers and computer equipment purchased by Computel Leasing Ltd., and (ii) the aggregate principal amount of Debentures converted into common shares.

(d) the application of the balance of the proceeds of (b) above amounting to $350,000 to working capital.

2. Long Term Debt—

Under the terms of the Trust Deed securing the 9% First Mortgage Sinking Fund Bonds, annual sinking fund instalments of $193,000 are required beginning in 1969. In addition the Company may, at its option, redeem Bonds at any time prior to maturity at prices ranging from 109% of the principal amount if redeemed on or before January 15, 1969, to 100% of the principal amount if redeemed after January 15, 1974.

The 6% Convertible Subordinated Debentures will be convertible into common shares at a conversion rate of 28 shares for each $1000 principal amount of Debentures at any time prior to September 15, 1978. The Trust Indenture, under which the Debentures will be issued, will require the Company to retire through the operation of a sinking fund, $500,000 principal amount of Debentures in each of the years 1979 to 1987 inclusive. In addition, the Trust Indenture will provide that the Company may at its option redeem Debentures at any time prior to maturity at prices ranging from 106% of the principal amount if redeemed on or before September 14, 1969, to 100% of the principal amount if redeemed after September 14, 1987.

The Company may not pay any cash dividends on its common shares until all of the First Mortgage Bonds and Convertible Subordinated Debentures have been retired.

3. Capital Stock, Reservation of Shares and Stock Options—

During the period from the date of incorporation September 6, 1967 to May 31, 1968, 50,000 common shares of the capital stock of the Company were issued for cash of $990,791. Subsequently, by Supplementary Letters Patent dated May 4, 1968, the authorized share capital of 100,000 shares was subdivided into 1,000,000 shares. Each issued share therefore became 10 shares.

Computel Leasing Ltd. has agreed, for a consideration of $2,000, to allot to a key employee on or before October 31, 1968 a number of shares of its capital stock which when allotted will equal 2% of its issued capital.

Options have been granted to certain employees of the Company and its subsidiary to purchase in the aggregate 4,821 common shares as follows:

Number of Shares	Date Options Granted	Market price at Date Options Granted	Expiry Date	Option Price
1,500	May 1, 1968	$16	April 30, 1973	$16
1,500	May 1, 1968	16	April 30, 1973	24
178	May 21, 1968	22	Dec. 31, 1968	20
43	Aug. 14, 1968	33	Dec. 31, 1968	30
600	Aug. 14, 1968	33	Aug. 13, 1971	30
1,000	Aug. 20, 1968	33	Aug. 31, 1971	33

144,821 common shares will be reserved for the conversion of the 6% Convertible Subordinated Debentures and for the above stock options.

4. Pre-operating Expenses—

The Company's computer was installed during the month of January 1968 and a testing and inspection program was then carried out. Commercial operations commenced early in February 1968, and therefore costs incurred prior to February 1, 1968 have been charged to pre-operating expenses. Pre-operating expenses are being amortized in equal monthly instalments over the period from February 1, 1968 to August 31, 1969, the end of the Company's next fiscal year.

5. Depreciation—

Depreciation on the computer and the major portion of its ancillary equipment has been provided on a straight line basis over an eight year period commencing on February 1, 1968, with provision for a 15% residual or salvage value.

6. Long Term Leases—

Under rental agreements the Company occupies leased premises at a total annual rent of $30,580. The leases are for varying periods of from two to five years. In addition, the Company leases certain ancillary equipment for $6,600 a month and has arranged for maintenance services on the computer and all ancillary equipment for $7,500 a month.

Auditors' Report

To the Directors of
COMPUTEL SYSTEMS LTD.:

We have examined the balance sheet and the pro forma consolidated balance sheet of Computel Systems Ltd. as at May 31, 1968 and the statements of income and deficit and pre-operating expenses and source and application of funds for the period from date of incorporation September 6, 1967 to May 31, 1968. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

(a) The accompanying balance sheet and statements of income and deficit and pre-operating expenses and source and application of funds present fairly the financial position of the company as at May 31, 1968 and the results of its operations and the source and application of its funds for the period then ended, and

(b) The accompanying pro forma consolidated balance sheet presents fairly the financial position of the company and its newly formed subsidiary, Computel Leasing Ltd. as at May 31, 1968, after giving effect as of that date to the changes set forth in note 1 to the balance sheets,

all in accordance with generally accepted accounting principles applied on a consistent basis.

Ottawa, Canada,
August 21, 1968.

(signed) Clarkson, Gordon & Co.
Chartered Accountants

Additional Information

There are no material facts relating to the Company not disclosed in this prospectus.

DATED: September 3, 1968

Certificate of Company

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act, 1967 (British Columbia) and the regulations thereunder, by Part 7 of The Securities Act, 1967 (Alberta) and the regulations thereunder, by Part VIII of The Securities Act, 1967 (Saskatchewan) and the regulations thereunder, by Part VII of The Securities Act, 1966 (Ontario) and the regulations thereunder, by the Quebec Securities Act and by section 13 of The Securities Act (New Brunswick).

On behalf of the Board of Directors

(signed) WARREN D. BEAMISH
Chief Executive Officer

(signed) WARREN D. BEAMISH, *Director*

(signed) R. T. HORWOOD
Chief Financial Officer

(signed) C. O'CONNOR, *Director*

Directors

(signed) GEORGE R. COGAR

(signed) F. BROOKS-HILL

(signed) WARREN D. BEAMISH

(signed) NORMAN J. SHORT

(signed) C. G. FLEMMING

(signed) R. N. STEINER

(signed) C. O'CONNOR

(signed) R. T. HORWOOD

(signed) B. D. BEAMISH

Promoters

(signed) WARREN D. BEAMISH

(signed) R. T. HORWOOD

Certificate of Underwriter

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of the Securities Act, 1967 (British Columbia) and the regulations thereunder, by Part 7 of The Securities Act, 1967 (Alberta) and the regulations thereunder, by Part VIII of The Securities Act, 1967 (Saskatchewan) and the regulations thereunder, by Part VII of The Securities Act, 1966 (Ontario) and the regulations thereunder, by the Quebec Securities Act and by section 13 of the Securities Act (New Brunswick).

A. E. AMES & CO. LIMITED

By: (signed) J. M. STEWART

The following are the names of all persons having an interest, directly or indirectly, to the extent of not less than 5% in the capital of A. E. Ames & Co. Limited: J. O. Hughes, W. P. Spragge, W. B. Macdonald, W. J. Piper, J. M. Stewart, D. B. Shaw, R. N. Steiner and R. W. Warren.

6. STOCK PROVISIONS AND VOTING POWER

Each common share carried one vote at all meetings of shareholders. Reference is made to pages 14 and 15 in the Prospectus under the headings: "Description of the Shares" and "Dividend Policy and Restrictions".

7. DIVIDEND RECORD

Reference is made to pages 13, 14 and 15 in the Prospectus under the heading "Dividend Policy".

8. RECORD OF PROPERTIES

Reference is made to page 3 in the Prospectus under the heading "Business of the Company" and to pages 5 and 6 under the heading "Proposed Business of Computel Leasing". Since the date of the Prospectus, Computel Leasing Ltd., has purchased for lease to the Company a Series 1108 Computer from Univac, Division of Sperry Rand (Canada) Ltd. and a Series 360/65 Computer from International Business Machines Company Limited.

9. SUBSIDIARY COMPANIES

Reference is made to page 3 in the Prospectus under the heading "Computel Leasing" and to pages 5, 6, 7, 8 and 9 under the heading "Proposed Business of Computel Leasing".

As of the date of this application, there are issued and outstanding 10,000 common shares of Computel Leasing Ltd. of which 9,800 are owned beneficially by the Company and 200 are owned by the General Manager of Computel Leasing Ltd. These shares were issued for an aggregate consideration of $100,000.

10. FUNDED DEBT

(a) 9% First Mortgage Sinking Fund Bonds.

Reference is made to page 14 in the Prospectus under the heading "First Mortgage Sinking Fund Bonds". The bonds mature on January 15th, 1975 and bear interest at the rate of 9% per annum payable half yearly on January 15th and July 15th of each year. The Company is required to establish a Sinking Fund to retire not less than $1,158,000 principal amount prior to maturity and for such purpose to retire annually on the 15th day of January for each of the years 1969 to 1974 inclusive, $193,000 principal amount of bonds.

The Company may redeem bonds at any time prior to maturity at prices ranging from 109% of the principal amount if redeemed on or before January 15th, 1969 to 100% of the principal amount redeemed after January 15th, 1974.

(b) 6% Convertible Subordinate Debentures.

Reference is made to pages 11 to 14 inclusive in the Prospectus under the heading "Description of Debentures".

11. OPTIONS, UNDERWRITINGS, ETC.

As appears under item No. 1 of this application, the Company has granted options to certain employees of the Company and its subsidiary to purchase 9,520 common shares without nominal or par value (which options have been exercised as to 1,011 shares and have lapsed as to 9 shares as reflected on page 1) and has issued $5,000,000 6% Convertible Subordinated Debentures which provide that the holders thereof may convert debentures into common shares. Reference is made to page 12 of the Prospectus under the heading "Conversion". There are no other options or outstanding underwritings, sale agreements or other contracts or agreements with respect to any of the unissued shares of the Company. None of the issued shares of the Company are held for its benefit.

12. LISTING ON OTHER STOCK EXCHANGES

There are no securities of the Company or its subsidiary listed on any stock exchange.

13. STATUS UNDER THE SECURITIES ACT

Particulars of any filing, registration, approval or qualification with or by the Ontario Securities Commission or any corresponding governmental body or authority are as follows:

(a) The Ontario Securities Commission issued its official receipt dated the 22nd day of December, 1967, acknowledging receipt of a preliminary prospectus dated December 22nd, 1967, required by the Securities Act (Ontario) in reference to the offering of $1,350,000 9% First Mortgage Sinking Fund Bonds and 27,000 common shares without nominal or par value.

(b) The Ontario Securities Commission issued its official receipt dated the 8th day of February, 1968, acknowledging receipt of the final prospectus dated February 5th, 1968, required by the Securities Act (Ontario) in reference to the offering of $1,350,000 9% First Mortgage Sinking Fund Bonds and 27,000 common shares without nominal or par value.

(c) The Ontario Securities Commission issued its official receipt dated the 22nd day of July, 1968, acknowledging receipt of the preliminary prospectus dated July 10th, 1968, required by the Securities Act (Ontario) in reference to the offering of the $5,000,000 6% Convertible Subordinated Debentures.

(d) The Ontario Securities Commission issued its official receipt dated the 6th day of September, 1968, acknowledging receipt of the final prospectus dated September 3rd, 1968, in reference to the offering of $5,000,000 6% Convertible Subordinated Debentures as required by the Securities Act (Ontario).

(e) The Alberta Securities Commission issued its official receipt dated the 6th day of August, 1968, acknowledging receipt of the material required under the Securities Act of Alberta in reference to the offering of $5,000,000 6% Convertible Subordinated Debentures.

(f) The British Columbia Securities Commission issued its official receipt dated the 9th day of September, 1968, acknowledging receipt of the material required under part 7 of the Securities Act (1967) of British Columbia in reference to the offering of $5,000,000 6% Convertible Subordinated Debentures.

(g) The Saskatchewan Securities Commission issued its official receipt dated the 5th day of September, 1968, acknowledging receipt of the material required under the Securities Act (1967) of the Province of Saskatchewan in reference to the offering of $5,000,000 6% Convertible Subordinated Debentures.

(h) The Registrar under the Securities Act of Nova Scotia issued his official receipt dated the 26th day of September, 1968, for the material required under the provisions of the Securities Act of Nova Scotia, in reference to the offering of $5,000,000 6% Convertible Subordinated Debentures.

(i) The prospectus was also filed with the Securities Commissions of Quebec, New Brunswick and Manitoba in accordance with the provisions of the securities legislation of these Provinces.

14. FISCAL YEAR

The fiscal year of the Company ends on August 31st of each year.

15. ANNUAL MEETINGS

The By-Laws of the Company provide that subject to Section 100 of the Company's Act, the annual meeting of the shareholders shall be held at the Head Office of the Company or elsewhere within Canada on such day in each year as the Board of Directors may, by resolution, determine. The first annual meeting of the shareholders was held at Ottawa, Ontario, on the 12th day of December, 1968.

16. HEAD OFFICE AND OTHER OFFICES

The Head Office of the Company is situated at 222 Laurier Avenue, in the City of Ottawa, in the Province of Ontario, and, in addition, the Company has offices at 250 Bloor Street West, in the City of Toronto, and at 2100 Drummond Avenue, in the City of Montreal.

17. TRANSFER AGENT

The Transfer Agent of the Company is:

Canada Permanent Trust Company,
1901 Bay Street,
Toronto 1, Ontario.

18. REGISTRAR

The Registrar of the Company is:

Canada Permanent Trust Company,
1901 Bay Street,
Toronto 1, Ontario.

19. TRANSFER FEE

No fee is charged on stock transfers other than customary Government stock transfer taxes.

20. AUDITORS

The Auditors of the Company are:

Clarkson, Gordon & Co.,
Chartered Accountants,
116 Albert Street,
Ottawa, Ontario.

21. OFFICERS

Name	Office
Warren Delacour Beamish	President
Robert Temple Horwood	Vice-President & Secretary
Bernard Delacour Beamish	Treasurer

22. DIRECTORS

The Directors of the Company are:

Warren Delacour Beamish
Bernard Delacour Beamish
Frederick Bancroft Brooks-Hill
George Richmond Cogar
Christopher George Fleming
Robert Temple Horwood
Charles Edward O'Connor
Norman John Short
Robert Newman Steiner

The full names, home addresses and principal occupations of the officers and directors during the past five (5) years are shown on page 16 and following of the Prospectus.

CERTIFICATE

Pursuant to a resolution duly passed by its Board of Directors, Computel Systems Ltd., hereby applies for a listing of the above mentioned securities on The Toronto Stock Exchange, and the undersigned officers thereof hereby certify that the statements and representations made in this application and in the documents submitted in support thereof are true and correct.

COMPUTEL SYSTEMS LTD.

Corporate Seal

Per: "WARREN D. BEAMISH",
President

Per: "R. T. HORWOOD",
Secretary

DISTRIBUTION OF COMMON STOCK AS OF JANUARY 31st, 1969

Number			Shares
139	Holders of	1 — 24 share lots	1,669
194	" "	25 — 99 " "	8,062
161	" "	100 — 199 " "	16,985
49	" "	200 — 299 " "	10,395
23	" "	300 — 399 " "	7,065
13	" "	400 — 499 " "	5,230
33	" "	500 — 999 " "	19,784
52	" "	1000 — up " "	511,952
664	Shareholders	Total shares	581,142